AN INTRODUCTION TO GST-THE COMPREHENSIVE INDIRECT TAX REFORM OF INDIA

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ABSTRACT

The Goods and Services Tax (GST) is a value added tax that will replace all indirect taxes levied on goods and services by the Government, both Central and States, once it is implemented. The GST is all set to consolidate all State economies. This will be one of the biggest taxation reforms that will take place in India once the Bill gets officially the green signal to implement. The basic idea is to create a single, cooperative and undivided Indian market to make the economy stronger and powerful. The GST will see a significant breakthrough towards an all-inclusive indirect tax reform in the country. Both SGST and CGST will be levied on the taxable value of a transaction. All goods and services, leaving aside a few, will be brought into the GST and there will be no difference between goods and services. The GST system will combine Central excise duty, additional excise duty, services tax, State VAT entertainment tax etc. under one banner. the Goods and Services Tax (GST) will indeed be a further significant improvement – the next logical step – towards a comprehensive indirect tax reforms in the country.

KEYWORDS: GST, VAT, CENVAT. Empowered Committee, Government.

Introduction

The Goods and Services Tax (GST) is a value added tax that will replace all indirect taxes levied on goods and services by the Government, both Central and States, once it is implemented. The GST is all set to consolidate all State economies. This will be one of the biggest taxation reforms that will take place in India once the Bill gets officially the green signal to implement. The basic idea is to create a single, cooperative and undivided Indian market to make the economy stronger and powerful. The GST will see a significant breakthrough towards an all-inclusive indirect tax reform in the country.

The introduction of Goods and Services Tax (GST) would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would mitigate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%. Introduction of GST would also make Indian products competitive in the domestic and international markets. Studies show that this would instantly spur economic growth. Last but not the least, this tax, because of its transparent character, would be easier to administer.

Goods and Services Tax (GST)

GST is a tax on goods and services with comprehensive and continuous chain of set-off benefits from the producer's point and service provider's point upto the retailer's level. It is essentially a tax only on value addition at each stage, and a supplier at each stage is permitted to set-off, through a tax credit mechanism, the GST paid on the purchase of goods and services as available for set-off on the GST to be paid on the supply of goods on the goods is thus much less.

Prior to the introduction of VAT in the Centre and in the States, there was a burden of multiple taxation in the pre-existing Central excise duty and the State sales tax systems. Before any commodity was produced, inputs were first taxed, and then after the commodity got produced with input tax load, output was taxed again. This was causing a burden of multiple taxation (i.e."tax on tax") with a cascading effect. Moreover, in the sales tax structure, when there was also a system of multi-point sales taxation at subsequent levels of distributive trade, then along with input tax load, burden of sales tax paid on purchase at each level was also added, thus aggravating the cascading effect further.

When VAT is introduced in place of Central excise duty, a set-off is given, i.e., a deduction is made from the overall tax burden for input tax. In the case of VAT in place of sales tax system, a set-off is given from tax burden not only for input tax paid but also for tax paid on previous purchases. With VAT, the problem of "tax on tax"and related burden of cascading effect is thus removed.

Furthermore, since the benefit of set-off can be obtained only if tax is duly paid on inputs (in the case of Central VAT), and on both inputs and on previous purchases (in the case of State VAT), there is a built-in check in the VAT structure on tax compliance in the Centre as well as in the States, with expected results in terms of improvement in transparency and reduction in tax evasion. For these beneficial effects, VAT has now been introduced in more than 150 countries, including several federal countries. In Asia, it has now been introduced in almost all the countries.

Salient features of the proposed GST model

(i) Consistent with the federal structure of the country, the GST will have two components: one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States (hereinafter referred to as State GST). This dual GST model would be implemented through multiple statutes (one for CGST and SGST statute for every State). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. would be uniform across these statutes as far as practicable.

(ii) The Central GST and the State GST would be applicable to all transactions of goods and services except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. The Central GST and State GST are to be paid to the accounts of the Centre and the States separately.

(iii) Since the Central GST and State GST are to be treated separately, in general, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST.

(iv) Cross utilisation of ITC between the Central GST and the State GST would, in general, not be allowed.

(v) To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.

(vi) The administration of the Central GST would be with the Centre and for State GST with the States.

(vii) The taxpayer would need to submit periodical returns to both the Central GST authority and to the concerned State GST authorities.

(viii) Each taxpayer would be allotted a PAN- linked taxpayer identification number with a total of 13/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax facilitating data exchange and taxpayer compliance. The exact design would be worked out in consultation with the Income-Tax Department.

(ix) Keeping in mind the need of tax payers convenience, functions such as assessment, enforcement, scrutiny and audit would be undertaken by the authority which is collecting the tax, with information sharing between the Centre and the States.

Taxes and Duties replaced by GST

Of the Central Government

- Central Excise duty
- Duties of Excise (Medicinal and Toilet Preparations)
- Additional Duties of Excise (Goods of Special Importance)
- Additional Duties of Excise (Textiles and Textile Products)
- Additional Duties of Customs (commonly known as CVD)
- Special Additional Duty of Customs (SAD)
- Service Tax
- Cesses and surcharges insofar as far as they relate to supply of goods or services

Of the State Government

- State VAT
- Central Sales Tax
- Purchase Tax
- Luxury Tax
- Entry Tax (All forms)
- Entertainment Tax (not levied by the local bodies)
- Taxes on advertisements
- Taxes on lotteries, betting and gambling
- State cesses and surcharges insofar as far as they relate to supply of goods or services

The Empowered Committee

Just like previous tax reforms of India, the task of developing the GST is entrusted with the Empowered Committee. The Empowered Committee of State Finance Ministers was originally set up on 17th July, 2000 by the Government of India with the Hon'ble State Finance Ministers of West Bengal, Karnataka, Madhya Pradesh, Maharashtra, Punjab, Uttar Pradesh, Gujarat, Delhi and Meghalaya as members with an objective to monitor the implementation of uniform floor rates of sales tax by States and Union Territories, to monitor the phasing out of the sales-tax based incentive schemes, to decide milestones and methods of States to switch over to VAT and to monitor reforms in the Central Sales Tax system existing in the country. Subsequently, Hon'ble State Finance Ministers of Assam, Tamil Nadu, Jammu & Kashmir, Jharkhand and Rajasthan were also notified as the members of the Empowered Committee. On 12th August, 2004 the Government of India decided to reconstitute the Empowered Committee with all the Hon'ble State Finance/Taxation Ministers as its members.

Later on, it was decided to register the body as a Society under the Societies Registration Act (XXI of 1860). The registration certificate was issued on August 17, 2004. All the Ministers in charge of Finance/Taxation of all State Governments and Union Territories with legislatures, Additional Secretary (Revenue), Government of India and Member Secretary, Empowered Committee are the members of the Empowered Committee.

The Empowered Committee has its office in Delhi Sachivalya, I.P. Estate, New Delhi where Government of NCT of Delhi has kindly provided accommodation and other facilities. The Society has been receiving contributions from the State Governments and Government of India to meet its administrative expenditure and undertake various other activities.The Empowered Committee has been meeting regularly. It is attended by the State Finance Ministers, Finance Secretaries and Commissioners of Commercial Taxes of the State Governments as well as senior officers of the Ministry of Finance, Government of India. During 2010-11, the Empowered Committee met eight times. The Annual General Meeting of the Empowered Committee was held on 28.11.2011.

The Constitution Amendment Bill needs to be passed by a two-third majority in both Houses of Parliament and subsequent ratification by at least half of the State Legislatures. The Bill has been passed by the Lok Sabha on 06.05.2015. The Bill was referred to the Select Committee (of 21 members led by Sh. Bhupendra Yadav, Hon'ble MP) of Rajya Sabha on 12.05.2015. The Select Committee has since submitted its Report on the Bill on 22.07.2015. The Bill awaits passage in the Rajya Sabha. After passage of the Bill by both Houses of Parliament, ratification by State legislatures and receipt of assent by the President, the process of enactment would be complete.

The West Bengal Finance Minister is currently the Chairman of the Empowered Committee. Given the passage of the Constitution (122nd) Amendment Bill, 2014 for Goods and Services Tax (GST) in the Lok Sabha in the next parliamentary session (Expected in July 2016) the Government of India seems committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by 2016 itself.

Five Committees have been constituted by the Empowered Committee of State Finance Ministers (EC) to deal with the various aspects of work relating to the introduction of GST. The Committees are:

(i) The Committee on the Problem of Dual Control, Threshold and Exemptions in GST Regime;

(ii) The Committee on Revenue Neutral Rates for State GST & Central GST and Place of Supply Rules (A Sub-Committee has been constituted to examine issues relating to the Place of Supply Rules);

(iii) The Committee on IGST & GST on Imports (A Sub- Committee has been set up to examine issues pertaining to IGST model);

(iv) The Committee to examine Business Processes under GST Regime (Three Sub-Committees have been constituted to examine issues pertaining to Registration & Returns, Refunds and Payments);

(v) The Committee to draft model GST Law (Three Sub-Committees have been constituted to draft various aspects of the model law);

The proposed model of GST and the rate

A dual GST system is planned to be implemented in India as proposed by the Empowered Committee under which the GST will be divided into two parts:

- State Goods and Services Tax (SGST)
- Central Goods and Services Tax (CGST)

Both SGST and CGST will be levied on the taxable value of a transaction. All goods and services, leaving aside a few, will be brought into the GST and there will be no difference between goods and services. The GST system will combine Central excise duty, additional excise duty, services tax, State VAT entertainment tax etc. under one banner.

The GST rate is expected to be around 14-16 per cent. After the combined GST rate is fixed, the States and the Centre will decide on the SGST and CGST rates. At present, 10 per cent is levied on services and the indirect taxes on most goods is around 20 per cent.

Currently, fiscal powers between the Centre and the States are clearly demarcated in the Constitution with almost no overlap between the respective domains. The Centre has the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States have the powers to levy tax on the sale of goods. In the case of Inter- State Sales, the Centre has the power to levy a tax (the Central Sales Tax) but, the tax is collected and retained entirely by the originating States.

As for services, it is the Centre alone that is empowered to levy service tax. Since the States are not empowered to levy any tax on the sale or purchase of goods in the course of their importation into or exportation from India, the Centre levies and collects this tax as additional duties of customs, which is in addition to the Basic Customs Duty. This additional duty of customs counterbalances excise duties, sales tax, State VAT and other taxes levied on the like domestic product.

Introduction of the GST would require amendments in the Constitution so as to concurrently empower the Centre and the States to levy and collect the GST. The assignment of concurrent jurisdiction to the Centre and the States for the levy of GST would require a unique institutional mechanism that would ensure that decisions about the structure, design and operation of GST are taken jointly by the two. For it to be effective, such a mechanism also needs to have Constitutional force.

Advantages of GST Bill

Introduction of a GST is very much essential in the emerging environment of the Indian economy.

- There is no doubt that in production and distribution of goods, services are increasingly used or consumed and vice versa. Separate taxes for goods and services, which is the present taxation system, requires division of transaction values into value of goods and services for taxation, leading to greater complications, administration, including compliances costs. In the GST system, when all the taxes are integrated, it would make possible the taxation burden to be split equitably between manufacturing and services.
- GST will be levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets).

This will help in removing economic distortions and bring about development of a common national market.

- It will also help to build a transparent and corruption-free tax administration. Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold.

Benefits of GST Bill

For the Centre and the States

According to experts, by implementing the GST, India will gain $15 billion a year. This is because, it will promote more exports, create more employment opportunities and boost growth. It will divide the burden of tax between manufacturing and services.

For individuals and companies

In the GST system, taxes for both Centre and State will be collected at the point of sale. Both will be charged on the manufacturing cost. Individuals will be benefited by this as prices are likely to come down and lower prices mean more consumption, and more consumption means more production, thereby helping in the growth of the companies.

For industry, trade and agriculture

GST will give more relief to industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes in the GST and phasing out of CST. The transparent and complete chain of set-offs which will result in widening of tax base and better tax compliance may also lead to lowering of tax burden on an average dealer in industry, trade and agriculture.

Conclusion

From the above discussion it is clear that GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important breakthrough – in the sphere of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be a further significant improvement – the next logical step – towards a comprehensive indirect tax reforms in the country.

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